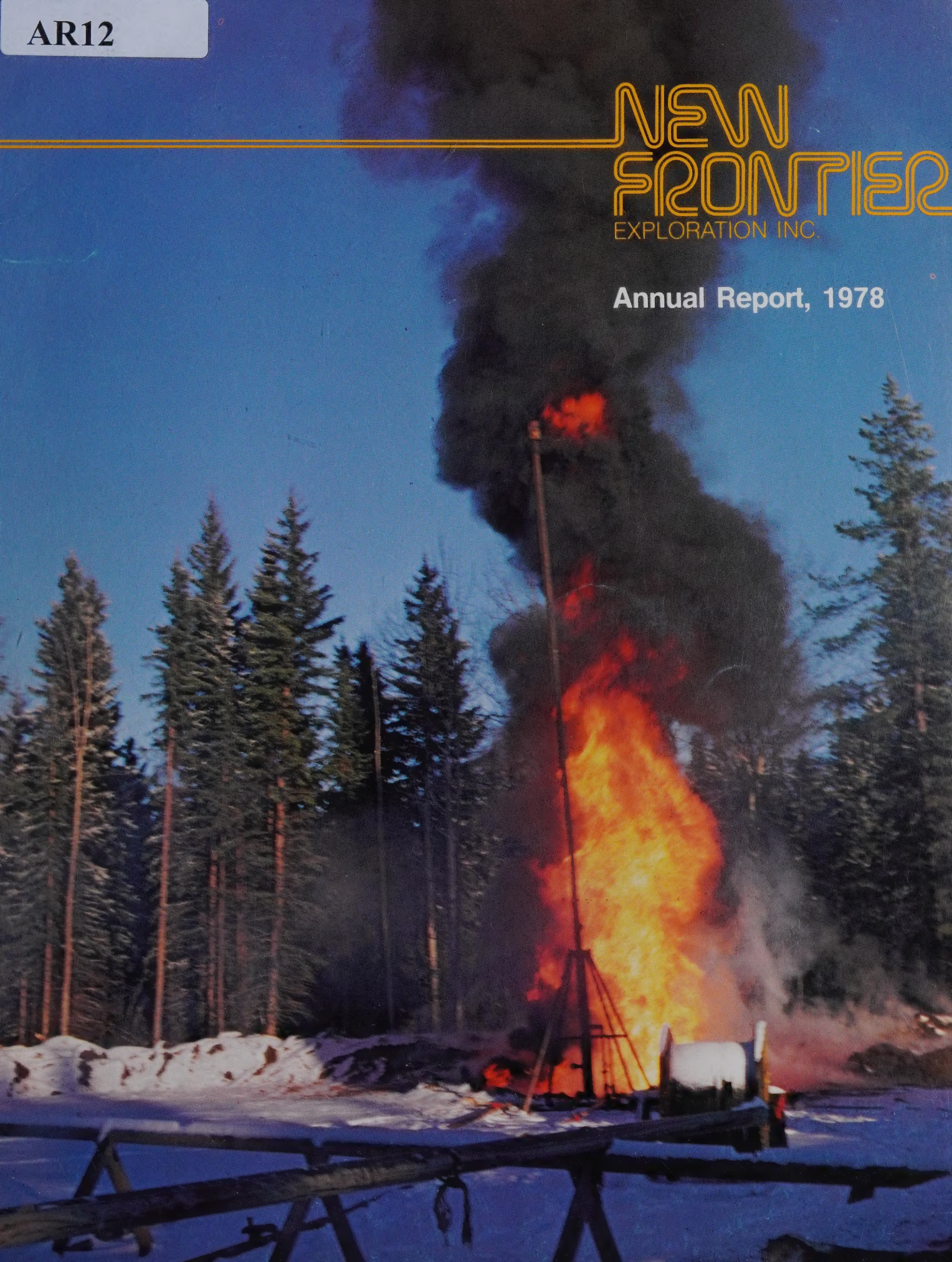


AR12

NEW FRONTIER

EXPLORATION INC.

Annual Report, 1978



Corporate Data

DIRECTORS: R. Ronald Blusson
J. Michael Mackey

Adolf A. Petancic

George O. M. Stewart

OFFICERS: George O. M. Stewart
Adolf A. Petancic

HEAD OFFICE:

REGISTRAR AND TRANSFER AGENT:

BANKERS:

AUDITORS:

LEGAL COUNSEL:

INCORPORATION:

STOCK EXCHANGE LISTING:

Geologist, Director, Norwich Resources Ltd.

Lawyer / Partner, Mackey Petancic;
President, TransColt Resources
Corporation; Director Norwich
Resources Ltd.

Lawyer / Partner, Mackey Petancic;
President, Norwich Resources Ltd.;
Director, TransColt Resources
Corporation

Geologist; Director, TransColt
Resources Corporation; Director,
Norwich Resources Ltd.

President

Secretary

1230 - 800 West Pender Street
Vancouver, B.C.
V6C 2V6
Telephone: (604) 684-6811

National Trust Company, Limited
Vancouver, B.C.

The Royal Bank of Canada
Vancouver, B.C.

Ellis, Foster & Company
Vancouver, B.C.

Mackey Petancic
Vancouver, B.C.

McLaws & Co.
Calgary, Alberta

Province of British Columbia

Vancouver Stock Exchange

Annual General Meeting:

The Annual General Meeting of
the shareholders of New Frontier
Exploration Inc. will be held in the
Patricia Room, Hotel Georgia,
801 West Georgia Street, Vancouver,
B.C. on Monday, April 30, 1979 at 10:00 A.M.

To Our Shareholders:

1978 was a year of dramatic developments for New Frontier Exploration Inc. ("New Frontier") and its shareholders. A total of 7 wildcat wells were participated in in Alberta, 5 of which were successfully completed. This success ratio is considerably above the industry average.

New Frontier's most significant discoveries were in the Rainbow South Area of Alberta. 3 test wells were drilled in 1978 and all were successfully completed. These discoveries in turn generated considerable interest in the brokerage community and a total of 6,526,262 shares of New Frontier were traded on the Vancouver Stock Exchange for a dollar value of \$21,131,343 by far the highest dollar value traded by any company listed on the Exchange's Resource and Development Board in 1978.

At the beginning of 1978, New Frontier was totally unknown in the oil and gas industry in Canada. During 1978 New Frontier committed \$3,500,000 for various drilling ventures, all of the funds raised through the facilities of the Vancouver Stock Exchange. Increased expenditures for exploration and development are planned for 1979. Today, significant cash flow is developing from our 1978 discoveries. Production has commenced from 3 oil wells completed in the Rainbow South Area.

Construction is underway on a pipeline gathering system complete with central battery and a tie-in to Aquitaine Company of Canada Ltd.'s. pipeline system approximately 4½ miles from New Frontier's Rainbow South Field. The pipeline system will be operational by July 1, 1979 and its 6" diameter will have a capacity of 4,000 barrels per day.

New Frontier has a future policy of growth built on the

foundation of our existing assets and management capability. Major priority will be the development of the Rainbow South Field by drilling and completing additional wells in 1979 and 1980. Engineering studies indicate that 8 more wells should be completed in the Rainbow South Field in order to fully tap the reserves there. A summary of an Appraisal Report prepared by Blain, Binnie Engineering (1976) Ltd. regarding the proven petroleum and natural gas reserves in the Rainbow South Field is given on page 2 of this Annual Report.

New Frontier also successfully completed a wildcat gas well in the Samson Area of Alberta. A pipeline is presently being constructed to a gas plant approximately 1½ miles from the well site. The well is anticipated to be on-stream by mid-April 1979 at a daily flow rate of at least one million cubic feet per day. New Frontier has a 30% interest until recovery of its costs in drilling and completing the well and pipeline system thereafter being reduced to 15%. 2 further wells are presently being drilled in the Samson Field.

In the West Pembina Area of Alberta, New Frontier participated in the drilling of a deep reef test with Pan-Canadian Petroleum Ltd. which did not encounter commercial hydrocarbons at total depth, however the well is being completed uphole and will make a positive contribution to New Frontier's cash flow.

In 1979 New Frontier will continue to seek growth opportunities first by increasing our capital investments in areas of proven success as outlined above and secondly by participating in new ventures in Canada and the United States. In accordance with that philosophy, New Frontier is presently participating in its first U.S. venture. A test well in the Brazos



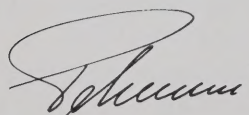
Highlights of Blain, Binnie Engineering (1976) Ltd. Report Dated March 1, 1979

County, Texas to be drilled to a total depth of 14,500' spudded-in March 9, 1979. Drilling time is estimated at 60 days. New Frontier, by paying 31.25% of the land acquisition costs and drilling costs to casing point will earn a 19.53% interest in this well and 13,450 surrounding acres. Several potential productive horizons will be tested.

Management of New Frontier looks forward to 1979 with confidence and expects it to be a year of significant corporate development and achievements.

New Frontier's Board of Directors and Management are particularly grateful for the support we have received from our shareholders and we would like to thank you for the interest you have shown in your Company.

On Behalf of the Board of Directors.

An independent Appraisal Report prepared by Blain, Binnie Engineering (1976) Ltd. of Calgary, Alberta dated March 1, 1979 showed the following reserves for the Company from its Rainbow South Field interests. No estimate was made of additional reserves with respect to the Samson or Pembina discoveries in which New Frontier participated.

The Rainbow South Field consists of 3 sections (1,920 acres) near the B.C./Alberta border (see map). By paying 70% of drilling and completion costs, New Frontier earns a 70% working interest before payout. Subsequent to payout of drilling and completion costs, New Frontier's working interest reverts to 40%. The chart below shows primary and secondary reserves. The primary recovery reserves based on a 40% recovery rate for the Keg River and 15% for the Muskeg formation. The secondary recovery reserves based upon known parameters in the Rainbow Area today are estimated at an additional 40% recovery from the Keg River and an additional 20% recovery from the Muskeg. This would be total, primary and secondary recovery of 80% from the Keg River and 35% from the Muskeg formation.

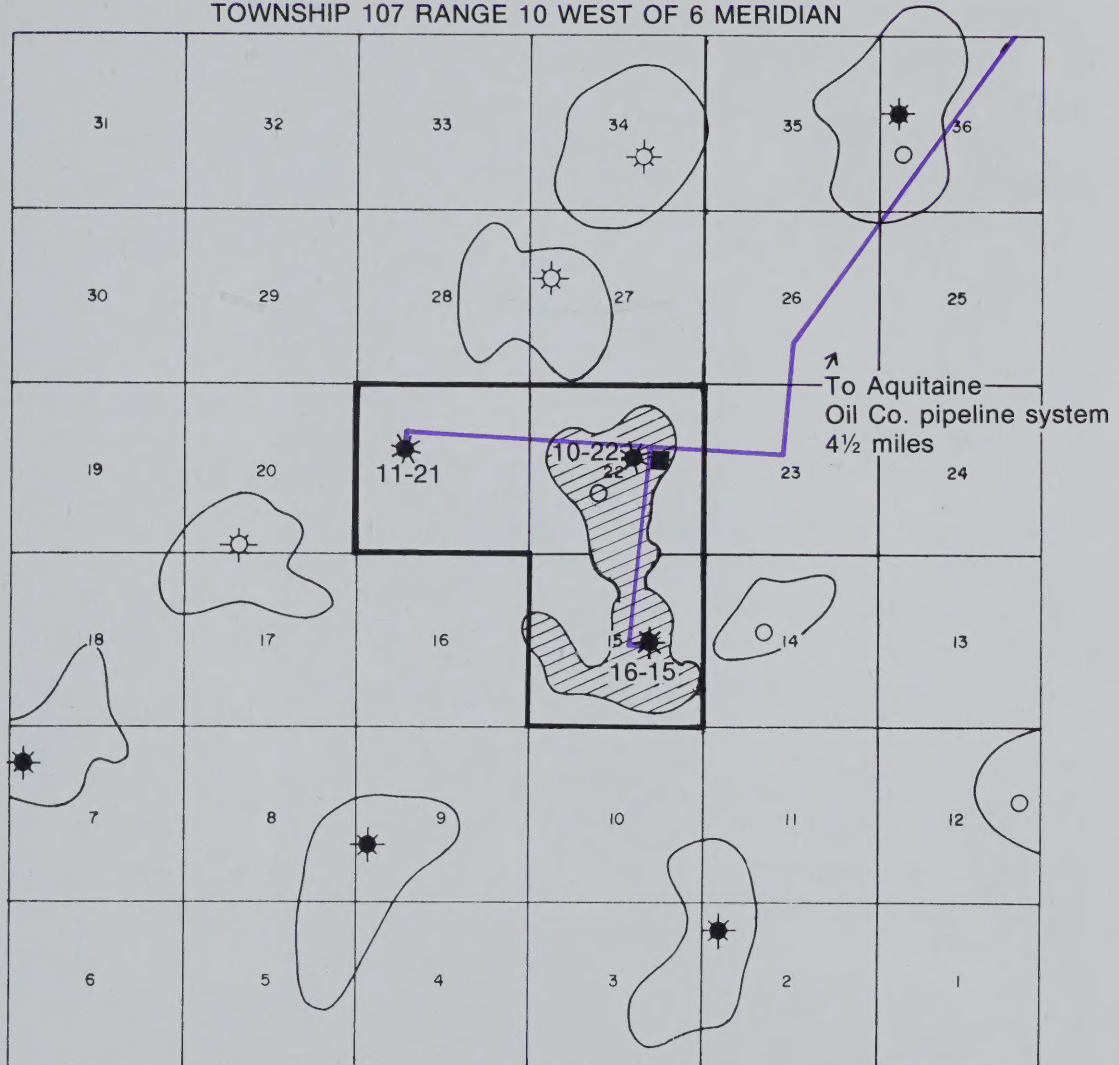
To fully develop the field, it is anticipated that 11 Muskeg wells would be completed, 3 of which have been drilled to-date, and an additional 2 Keg River wells, both of which have been completed.

	KEG	MUSKEG	TOTAL
PRIMARY RECOVERY	8,328 MBBL Table 1*	5,866 MBBL Table 2*	14,194 MBBL
SECONDARY RECOVERY	11,104 MBBL Page 2* Discussion	9,385 MBBL Page 2* Discussion	20,489 MBBL
TOTAL	19,432 MBBL	15,251 MBBL	34,683 MBBL

In addition there are 9.425 billion cubic feet of proven and probable gas reserves. It is not anticipated that the gas which is from the Sulphur Point formation would be on-stream before 1981.

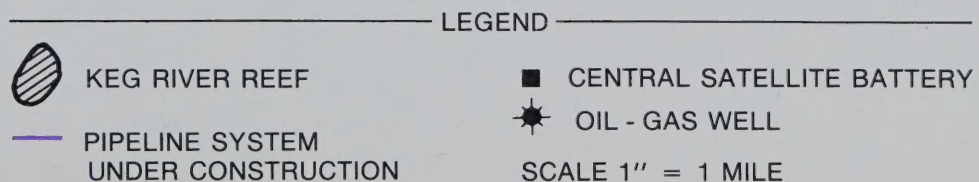
RAINBOW SOUTH OIL FIELD

TOWNSHIP 107 RANGE 10 WEST OF 6 MERIDIAN



170 MICROSECOND SEISMIC CONTOUR INDICATING REEF ZONES.

NEW FRONTIER EXPLORATION INC. PORTION OF RAINBOW SOUTH GAS & OIL FIELD



Balance Sheet as at October 31, 1978

Assets

	1978 \$	1977 \$
CURRENT ASSETS		
Cash and term deposits	524,716	3,493
Marketable securities		54,178
	<u>524,716</u>	<u>57,671</u>
INVESTMENT IN AND ADVANCES TO SUBSIDIARY COMPANY	1	1
MINERAL PROPERTIES (note 2)	123,750	126,050
DEFERRED COSTS		
Deferred exploration, development and administrative costs	2,408,668	389,917
FIXED ASSETS		
Furniture and fixtures — at cost less accumulated depreciation (1978 - \$578; 1977 - \$372)	1,742	1,316
INCORPORATION COSTS	880	880
	<u>3,059,757</u>	<u>575,835</u>

Liabilities

CURRENT LIABILITIES

Accounts payable and accrued liabilities
Directors' advances

493,561

16,288

3,821

8,715

497,382

25,003

Shareholders' Equity

SHARE CAPITAL (note 4)

2,957,456

853,528

DEFICIT

395,081

302,696

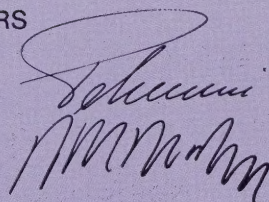
2,562,375

550,832

3,059,757

575,835

APPROVED BY THE DIRECTORS



Director

Director

Statement of Deficit for the year ended October 31, 1978

	1978 \$	1977 \$
DURING THE YEAR		
Write-off of costs		
Claims and related deferred costs		
Barb (note 2(d))	78,285	
Zinc (note 2(e))	15,199	
Gama (note 2(c))	5,102	
Nadina agreement		101,018
Reorganization and financing costs		5,300
Other deferred costs		2,427
	98,586	108,745
Gain on sale of marketable securities	(6,201)	
	92,385	108,745
DEFICIT — BEGINNING OF YEAR	302,696	193,951
DEFICIT — END OF YEAR	395,081	302,696

Auditors' Report to the Shareholders

We have examined the balance sheet of New Frontier Exploration Inc. as at October 31, 1978 and the statements of deficit, deferred costs and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at October 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
December 10, 1978

Coopers & Lybrand
CHARTERED ACCOUNTANTS

Statement of Deferred Costs for the year ended October 31, 1978

EXPLORATION AND DEVELOPMENT	1978	1977
Costs during the year	\$	\$
Drilling	1,967,053	37,406
Geological fees	22,435	2,549
Travel and accommodation	5,293	2,788
Field supplies and sundry	2,071	5,934
Labour — surface work	1,234	15,423
Licences and rentals	805	565
Equipment rental	433	3,248
Staking and recording		1,573
	<u>1,999,324</u>	<u>69,486</u>
Petroleum preproduction revenue	(26,560)	
	<u>1,972,764</u>	<u>69,486</u>
ADMINISTRATIVE		
Legal and audit	30,136	16,739
Management and office service	18,767	13,654
Rent	7,456	3,001
Stock exchange listing fees	6,110	2,960
Stock transfer fees	5,230	2,954
Stationery, advertising and sundry	3,518	791
B.C. Capital tax	2,846	2,909
Depreciation	205	160
	<u>74,268</u>	<u>43,168</u>
Sundry income	(3,265)	
	<u>71,003</u>	<u>43,168</u>
TOTAL DEFERRED COSTS FOR THE YEAR	<u>2,043,767</u>	<u>112,654</u>
BALANCE — BEGINNING OF YEAR	389,917	386,008
	<u>2,433,684</u>	<u>498,662</u>
Costs written-off to deficit during the year	25,016	108,745
BALANCE — END OF YEAR	<u>2,408,668</u>	<u>389,917</u>
ALLOCATED AS FOLLOWS:		
Exploration and development:		
Mineral Properties		
Owen Lake	299,638	299,566
Hazelton	52,014	52,014
Bergette	36,536	36,536
Gama		1,801
	<u>388,188</u>	<u>389,917</u>
Petroleum and Natural Gas Properties		
Rainbow	1,166,603	
West Pembina	699,113	
Samson	154,764	
	<u>2,020,480</u>	
	<u>2,408,668</u>	<u>389,917</u>

Statement of Changes in Financial Position

for the year ended October 31, 1978

	1978 \$	1977 \$
SOURCE OF WORKING CAPITAL		
Shares issued for cash (1978 - 1,067,000; 1977 - 1,394,001)	1,803,928	155,493
833,329 shares issued for conversion of syndicate expenditures	250,000	
50,000 shares issued for mineral properties	50,000	
375,000 shares in escrow issued for mineral properties		3,750
164,070 shares issued for debt conversion		16,407
	<u>2,103,928</u>	<u>175,650</u>
Gain on sale of marketable securities	6,201	
	<u>2,110,129</u>	<u>175,650</u>
USE OF WORKING CAPITAL		
Mineral properties	71,270	6,050
Fixed assets	631	1,423
Exploration, development and administrative costs excluding depreciation of \$205 (1977 - \$160)	2,043,562	112,494
	<u>2,115,463</u>	<u>119,967</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(5,334)	55,683
WORKING CAPITAL (DEFICIENCY) — BEGINNING OF YEAR	<u>32,668</u>	<u>(23,015)</u>
WORKING CAPITAL — END OF YEAR	<u>27,334</u>	<u>32,668</u>
 REPRESENTED BY:		
Current assets	524,716	57,671
Current liabilities	497,382	25,003
WORKING CAPITAL — END OF YEAR	<u>27,334</u>	<u>32,668</u>

Notes to Financial Statements

for the year ended October 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Investment in and Advances to Subsidiary Company

During 1974, the company wrote down the carrying value of its inactive wholly-owned subsidiary, Foxy Creek Exploration Limited, to a nominal value of \$1. The accounts of the wholly-owned subsidiary show net assets of \$350 and an accumulated deficit of \$1,687. The total expenditures of \$2,037 were financed by its parent company in the form of advances. No transactions have occurred since 1974.

As a result of the nominal value of the subsidiary company, the accounts of Foxy Creek Exploration Limited have not been consolidated with the accounts of New Frontier Exploration Inc.

(b) Mineral Properties and Deferred Costs

The amounts shown for mineral properties and deferred exploration, development and administrative costs represent costs to date and do not necessarily reflect present or future values. The company defers all exploration, development and administrative costs and will amortize these deferred costs over the useful life of the properties upon commencement of commercial production or write off the costs to deficit if the properties or prospects are abandoned or allowed to lapse.

(c) Fixed Assets

The company's fixed assets are being depreciated as follows:

Furniture and fixtures — 20% straight-line
Leasehold improvements — 10% straight-line

2. MINERAL PROPERTIES

(a) As at October 31, 1978, the company owned or was acquiring under option the following mineral properties, all in the Province of British Columbia:

No. of claims		1978	1977
1978	1977	\$	\$
1	1		
	1		
	mineral claim (Hazelton Group) in the Omineca Mining Division at the amount ascribed to 175,000 shares of the company issued as consideration therefor	70,000	70,000
23	23		
	mineral claims (Owen Lake Group) in the Omineca Mining Division acquired for cash under the terms of an option agreement now completed	50,000	50,000
27	27		
	mineral claims (Bergette Group) in the Omineca Mining Division being acquired under a working option agreement (note 2(b))	3,750	3,750
	3		
	mineral claims (Gama Group) in the Greenwood Mining Division		2,300
51	54	123,750	126,050

(b) Bergette Group

On December 16, 1970, the company entered into a working option agreement for the right to obtain an interest in the Bergette Group claims. This agreement was superceded by an agreement dated July 15, 1971, in which Granges Exploration Aktiebolag undertook a working option agreement with the company and the optionors of the Bergette Group. This agreement provided among other terms that:

- (i) After an exploration programme of \$150,000, Granges was to obtain the right to acquire a 60% interest in the mineral claims, such interest to be held in trust for New Frontier
- (ii) Granges could obtain for itself a 1% interest to a maximum of 80.84% for each additional \$18,000 expended in excess of the \$150,000. Such interest would be acquired pro rata from the optionors (40%) and the company (60%)
- (iii) The company and the optionors would retain a minimum interest of 11.66% and 7.5% respectively
- (iv) The optionors could obtain from Granges a 1% interest in the claims for each 5% interest obtained by Granges pursuant to 2(b)(ii) by payment of \$18,000 to Granges for each 1% interest the optionors obtain.

As at October 31, 1978 Granges had expended \$259,452 on the exploration programme and had exercised its right to obtain a 6.0832% interest in the claims pursuant to 2(b)(ii) and

subject to the terms of the agreement.

As at October 31, 1978, Granges held in trust for New Frontier a 56.3501% interest in the claims. In addition to the 56.3501% interest, during 1977 the company acquired a further 3.75% interest for 375,000 shares with an ascribed value of \$3,750.

(c) Gama Group

The company entered into a working option agreement on August 25, 1977 with John W. Carson and E. V. McDougall to acquire a 100% interest in 3 mineral claims in the Greenwood Mining Division of British Columbia. During the year, the company terminated the agreement and has written off to the deficit account the mineral claim costs of \$3,300 and the related exploration costs of \$1,802 for a total of \$5,102.

- (d) The company entered into an option agreement dated November 30, 1977 with Welcome North Mines (N.P.L.) to acquire its 100% interest in 7 mining claims (Barb group) in the Frances Lake Area, Watson Lake Mining District, Yukon Territory. Subsequent to the year-end the company became in default of the terms of the agreement and therefore terminated the agreement. As a result the cost of the mineral claims of \$56,000, exploration costs of \$21,521 and an apportionment of administrative costs of \$764 for a total of \$78,285 have been written off to the deficit account in the year.

- (e) In 1978, the company obtained for the cost of staking, 62 claims (Zinc group) in the Frances Lake area, Yukon Territory. These claims were contiguous to and surrounded the Barb group claims (note 2(d)). Since the Barb group claims agreement was terminated, the cost of the Zinc group claims of \$14,270 and deferred costs of \$929 for a total of \$15,199 have been written off to the deficit account in the year.

3. OIL AND GAS EXPLORATION AGREEMENTS

(a) Rainbow South Area, Alberta

The company entered into participation agreements with Gascome Projects Ltd., dated December 21, 1977 and February 22, 1978, to provide 60% of the drilling and completion costs on one well in each of Sections 15, 21 and 22, all of 107 -10 W6M to earn an undivided 30% working interest.

The interests of the participants are subject to Crown royalties and an overriding 15% royalty, 7½% of which is convertible into a 25% working option by Aquitaine Canada Ltd. that could reduce New Frontier's working interest to 22½%. As at October 31, 1978 New Frontier's share of the drilling and completion costs amounted to \$1,152,243 plus an allocation of administrative costs of \$40,920 less pre-production revenue of \$26,560 for a total of \$1,166,603.

(b) Samson, Alberta

The company entered into a participation agreement with Gascome Projects Ltd., dated

March 29, 1978 to provide 30% of the drilling and completion costs on five wells in five sections, to provide an undivided 15% working interest in a total of 9½ sections.

As at October 31, 1978, New Frontier's share of the drilling and completion costs amounted to \$149,457 plus an allocation of administrative costs of \$5,307 for a total of \$154,764.

(c) West Pembina, Alberta

The company entered into a participation agreement dated March 29, 1978 with Gascome Projects Ltd. to provide 25% of the drilling and completion costs of one well in Section 11-50-12 W5M to earn an undivided 8.125% working interest. As at October 31, 1978 New Frontier's share of the drilling and completion costs amounted to \$675,137 plus an allocation of administrative costs of \$23,976 for a total of \$699,113.

4. SHARE CAPITAL

- (a) The company's authorized share capital is 10,000,000 common shares without par value.
- (b) As at October 31, 1978, the company's issued share capital was as follows:

	1978		1977	
	Shares	\$	Shares	\$
For cash	2,359,682	2,564,799	1,292,682	760,871
For properties	606,250	126,250	556,250	76,250
For debt				
conversion	164,070	16,407	164,070	16,407
For exploration expenditures				
conversion	833,329	250,000		
	<u>3,963,331</u>	<u>2,957,456</u>	<u>2,013,002</u>	<u>853,528</u>

(c) Of the total shares issued, 418,858 shares (1977-419,687 shares) are held in escrow, their release being subject to the consent of the appropriate regulatory bodies.

(d) During the year, the company issued 1,616,071 shares as follows:

Shares		\$
140,000	for cash on directors exercising options (100,000 shares at 25¢ per share, 40,000 shares at \$1.25 per share)	75,000
500,000	for cash on exercise of share purchase warrants (200,000 shares at \$1.00 per share; 200,000 shares at \$1.50 per share, and 100,000 shares at \$2.00 per share)	700,000
427,000	for cash by private placement (400,000 shares at average net price per share of \$2.32 per share; 27,000 shares at \$3.75 per share)	1,028,928
<u>1,067,000</u>	for cash	<u>1,803,928</u>
833,329	issued to New Frontier syndicate members on conversion of \$250,000 of exploration expenditures at 30¢ per share	250,000
50,000	issued to Welcome North Mines (N.P.L.) pursuant to an agreement to obtain an interest in the Barb mining claims (note 2(d))	50,000
<u>883,329</u>		<u>300,000</u>
<u>1,950,329</u>		<u>2,103,928</u>

(e) On April 28, 1978 the company granted to its directors, stock options totalling 160,000 shares at \$4.25 per share to be exercised on or before April 30, 1979.

5. REMUNERATION OF OFFICERS, DIRECTORS AND SENIOR OFFICIALS

No direct remuneration was paid to officers, directors or senior officials during the year ended October 31, 1978. The company's solicitors, Mackey Petancic (both of whom are directors and shareholders of the company), charged a management fee of \$12,000 and provided the company with rental space and office services for which they were reimbursed.

6. SUBSEQUENT EVENT

On December 1, 1978 the Vancouver Stock Exchange approved agreements for the issuance of shares as follows:

	\$
(a) 83,000 shares at \$2.75 for a total consideration of	228,250
(b) a maximum of 214,500 shares at \$2.75 for a total consideration of	591,125
	<u>819,375</u>

The total proceeds are to be used to cover the partial cost of drilling two wells in the Rainbow South area and Samson area of Alberta.

